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SUBJECT: May/June Economic Digest: Mozambique

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¶1. This is a brief summary of significant economic developments in Mozambique during May and June 2007. We provide it as a supplement to our other reporting. The items discussed are:

-- Investment in Tourism Increases Significantly

-- M-Cel Now in the Black

-- Theft Plagues MozambiqueQs Power Utility

-- EDM Plans Major Grid Investments

-- New Tender for Oil Exploration on the Horizon

-- Mining Investment in Mozambique Increased by 56%

-- Port of Nacala to Link Zambia with Indian Ocean

-- CVRD Signs Contract with GRM; Moatize Mining Begins By 2010

-- Mozambique Buys Back Commercial Debt

-- Minimum Wage Increased 14%

-- IMF Concludes Final PRGF Review

-- Sweden to Help Bring Electricity to Niassa

-- Inflation Low, Central Bank Reduces Key Interest Rate, Private Sector Wants More

Investment in Tourism Increases Significantly

¶2. A government report noted that MozambiqueQs tourism sector saw an increase of USD 83 million in investment between 2005 and 2006, reaching a total of USD 604 million. According to Deputy Tourism Minister Rosario Mualeia, the majority of the investment was in hotels, roads and new tourist resorts. Deputy Minister Mualeia also predicted that 2007 will be one

of the best years in decades for the tourism sector, estimating that Mozambique would receive over one million international tourists and revenues of over USD 150 million. Tourism revenues for 2006 totaled USD 144 million.

M-Cel Now In the Black

¶3. M-Cel, MozambiqueQs mostly publicly owned cell phone company, is now running a profit, according to its latest press release. M-Cel states that it made a profit of approximately USD 19.6 million in 2006, with total revenue of approximately USD 170 million, an increase of 29 percent compared with 2005. M-Cel claims that it holds 70 percent of the Mozambican cell phone market. Competitor and private company Vodacom claims 35 percent and continues to post losses.

Theft Plagues MozambiqueQ Power Utility

¶4. MozambiqueQs state power utility Electricidade de Mozambique (EDM) has lost more than USD 6.5 million to theft since 2001. In the first half of 2007 EDM suffered losses of more than USD 650,000. Oil from power transformers and items made of copper or aluminum are favorite targets. According to EDM, the theft results in often long power cuts to areas as the company waits for replacement transformers and other equipment.

EDM Plans Major Grid Investments

¶5. On June 22, Finance Minister Manuel Chang signed EDM's new program contract. Under the terms of the new program contract, EDM plans to set up 210,000 new links to the grid by 2009. These upgrades will cost an estimated USD 382 million and will bring electricity to nearly one million people, largely in rural areas. Nearly 70 percent of the funding will come from unspecified overseas sources; EDM will raise the remaining 30 percent. According to Chang, the GRM plans to provide grants and credits to EDM and assist the company in accessing overseas capital markets; the government is also considering canceling part of EDMQs outstanding debts.

New Tender for Oil Exploration on the Horizon
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¶6. Mineral Resources Minister Esperanca Bias announced in June that Mozambique intends to launch a new oil exploration tender by the end of the year. The new tender will focus on the southern province of Inhambane. South of Inhambane, the Pande and Temane gas field are proven, with Pande alone holding reserves of over 3.5 million cubic feet. Minister Bias stated that considerable oil and gas exploration possibilities existed in the provinces of Gaza, Inhambane, Sofala, Zambezi, Nampula, Cabo Delgado and related offshore areas.

Mining Investment in Mozambique Increased by 56%
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¶7. Suggesting that investors and explorers see real potential in MozambiqueQs mineral rich, but largely unexplored, provinces, mining investment in Mozambique between 2005 and 2006 increased by 56%. The increase

in investment in the mining sector has been rapid; investment in 2004 reached USD 40 million, climbed to USD 160 million in 2005 and reached a staggering USD 250 million in 2006. The GRM issued over 900 mining licenses last year, the majority for exploration/mining in base metals, tantalite, coal and gold, however significant exploration for uranium and other elements continues.

Port of Nacala to Link Zambia with Indian Ocean

¶8. According to Zambian Ambassador to Mozambique, Edwin H. Hatembo, by September 2007, Zambia will be linked by rail to the Port of Nacala. Hatembo, who was visiting Nampula as part of a group of African ambassadors studying the feasibility of using the Nacala corridor, stated that come September the Nacala corridor will be one of ZambiaQs doorways for foreign trade. Reconstruction work is currently underway on the railway line between Nchingi and Chipaka, in Malawi; completion of this line is necessary to link Zambia to the Nacala corridor. (Note: The Nacala Corridor railway and port is run by CDN, an OPIC-backed investment 51% owned by a consortium of two American companies and one Mozambican investor. End Note.)

CVRD Signs Contract with GRM; Moatize Mining Begins by 2010

¶9. Companhia Vale do Rio Doce (CVRD) announced that the GRM formally approved the mining contract for the development of the multi-billion-dollar Moatize coal project, located in the northwestern province of Tete. Signing of the Moatize contract followed approval of the project development plan by the GRM in early June. The contract grant is for 25 years, extendable by CVRD, and clarifies the tax, international trade, labor and foreign exchange rules that will govern CVRD investment in Moatize. Training of technical staff, installation of equipment and construction of infrastructure should be completed within 36 months, with mining of coal beginning in 2010. Moatize basin holds reserves of at least 2.4 billion tons of coal.

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CVRD expects an annual production of approximately 11 million metric tons of coal products, with open pit mining continuing for 35 years.

Mozambique Buys Back Commercial Debt

¶10. Mozambique and the World Bank signed an agreement on May 10 under which Mozambique bought back its commercial debt for nine percent of its nominal value. The agreement grants Mozambique USD 16.1 million to buy back commercial debt with a nominal value of USD 176 million. The 176 million includes USD 119.8 million in capital and USD 56.2 million in interest. Norway granted USD 14.7 million dollars, with the World Bank contributing USD 1.4 million. This agreement is the second buy back agreement for Mozambique and makes the Mozambican government completely free of commercial debt. (Note. The first buy back agreement was in 1991 for USD 123.8 million dollars (nominal value). End Note.)

Minimum Wage Increased 14%

¶11. In May the GRM raised by 14 percent the statutory minimum wage for industry and services. The increase followed an extended deadlock in negotiations at the

Consultative Labor Commission (CCT), the tripartite negotiating body which includes government, union and Mozambican Confederation of Business Associations (CTA) (the umbrella organization representing the private sector) representatives. Agricultural workers received a lower increase of 10 percent. The current increases will be backdated to April 1st. The 14 percent increase is above the 2006 consumer price inflation rate of approximately 9 percent.

IMF Concludes Final PRGF Review

¶12. On June 18, the Executive Board of the International Monetary Fund (IMF) completed its final review of MozambiqueQs economic performance under the IMFQs Poverty Reduction and Growth Facility (PGRF). The PGRF Loan agreement, for approximately USD 17.1 million, allowed for disbursements in six installments, conditional on positive reviews. The latest and final review allows for a final disbursement of the remaining USD 2.4 million still outstanding. The IMF is not offering any additional loans to Mozambique, instead offering to assist through a three-year Policy Support Instrument (PSI). PSIs are endorsements by the IMF of a countryQs economic policies; according to the IMF, MozambiqueQs PSI will support economic reform by helping to maintain macroeconomic stability.

Sweden to Help Bring Electricity to Niassa

¶13. Sweden will contribute approximately USD 11.3 million to construct a new electricity transmission line in the northernmost province of Niassa. The new line will link the city of Cuamba to Mecanhelas and Marrupa district capitals in the eastern region of the province. This addition is part of the governmentQs goal to link over 100 of the 128 district capitals with the national power grid by 2010. This grant is in addition to SwedenQs commitment, worth approximately USD 100 million, to expand the Cahora Bassa power lines from Zambezia province up to Cuamba and on to Lichinga, provincial capital of Niassa.

Inflation Low, Central Bank Reduces Key Interest Rate, Private Sector Wants More
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¶14. According to the Bank of Mozambique, the rate of inflation (based on the Maputo Consumer Price Index) was 1.55 percent during the first quarter of the year.

The GRMQs stated goal is to keep inflation at or below six percent in 2007, compared with over 9 percent in ¶2006. Despite low inflation, commercial banks continue to charge elevated rates of interest. The average interest on a 365 day bank loan in April 2007 was 23.84 percent, higher than the same time in 2006. In an attempt to get commercial banks to lower their interest rates, the Bank of Mozambique announced on June 11 that it would cut its own key interest rate from 17.5 to 15.5 percent. The chairperson of the CTA, Salimo Abdula, characterized the action as positive, but CTA wants additional moves to make credit cheaper and business more competitive. Lack of access to capital is an oft-cited complaint amongst businesspeople as limiting ability to invest and be competitive.

Dudley